

MECOSTA - OSCEOLA COUNTY AREA TRANSIT

BIG RAPIDS, MICHIGAN

SEPTEMBER 30, 2004

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Mecosta Osceola County Area Transit	County Mecosta
Audit Date 9/30/04	Opinion Date 10/19/04	Date Accountant Report Submitted to State: 11/15/04	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

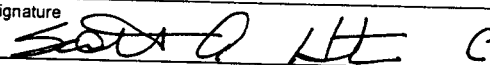
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Baird, Cotter & Bishop, P.C.			
Street Address 134 W. Harris Street		City Cadillac	State MI
Accountant Signature 		ZIP 49601	Date 11.8.04

MECOSTA-OSCEOLA COUNTY AREA TRANSIT

BIG RAPIDS, MICHIGAN

SEPTEMBER 30, 2004

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CERTIFIED PUBLIC ACCOUNTANTS

October 19, 2004

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Mecosta-Osceola County Area Transit
Big Rapids, Michigan

We have audited the accompanying statement of net assets of the Mecosta-Osceola County Area Transit, as of and for the years ended September 30, 2004, and 2003, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the Mecosta-Osceola County Area Transit, as of September 30, 2004 and 2003, and the results of its operations and changes in cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Authority has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as of October 1, 2003.

The management's discussion and analysis is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the financial statements that collectively comprise the Mecosta-Osceola County Area Transit, Big Rapids, Michigan basic financial statements. The accompanying information listed as supporting schedules and statistical tables in the Table of Contents is presented for purposes of additional analysis and is not a required part of the financial statements of the Mecosta-Osceola County Area Transit. Such information, except for that portion marked "unaudited", on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements, taken as a whole.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

MECOSTA-OSCEOLA COUNTY AREA TRANSIT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED SEPTEMBER 30, 2004

This section of the Authority's Comprehensive Annual Financial Report presents management's overview and analysis of the Authority's financial performance for the fiscal year ended September 30, 2004. This section should be read in conjunction with the financial statements which follow this section.

Financial Highlights

- The assets of the Authority exceeded its liabilities at September 30, 2004, by \$703,074. Of this amount, \$79,912 represents net assets which are not invested in capital assets.
- The Authority's total net assets decreased by \$170,178.
- The Authority remained free of long-term debt during the period.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Authority's basic financial statements. The notes to the financial statements also contain more detail on some of the information presented in the financial statements. The financial statements of the Authority report information about the Authority using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities. The Statement of Net Assets presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. The Statement of Revenues, Expenses and Changes in Net Assets presents information showing how the Authority's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are recorded in this statement for some items that will only result in cash flows in future fiscal periods (for example, earned but unused vacation leave).

Financial Analysis

The following is a summary of the Authority's net assets.

Summary Statement of Net Assets

Assets:	2004	2003
Current Assets	\$ 199,419	\$ 255,982
Capital Assets (Net)	623,162	719,390
Total Assets	<u>\$ 822,581</u>	<u>\$ 975,372</u>

MECOSTA-OSCEOLA COUNTY AREA TRANSIT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED SEPTEMBER 30, 2004

Liabilities:		
Current Liabilities	\$ 119,507	\$ 102,120
Net Assets:		
Invested in Capital Assets	623,162	719,390
Unrestricted	79,912	153,862
	<hr/>	<hr/>
Total Liabilities and Net Assets	\$ 822,581	\$ 975,372
	<hr/>	<hr/>

The Authority's net assets decreased by \$170,178 in 2004. The following is a summary Statement of Revenues, Expenses and Changes in Net Assets which show how the \$170,178 decrease in net assets occurred. Also shown is the change for the year ended September 30, 2003.

Summary Statement of Revenues, Expenses and Changes in Net Assets

	<u>2004</u>	<u>2003</u>
Operating Revenue	\$ 233,686	\$ 202,375
Operating Expenses	885,740	928,948
	<hr/>	<hr/>
Operating Loss	\$ (652,054)	\$ (726,573)
	<hr/>	<hr/>
State Sources	\$ 361,026	\$ 403,701
Federal Sources	79,313	69,911
Other Nonoperating Revenue (net)	10,373	5,906
Total Nonoperating Revenue	\$ 450,712	\$ 479,518
	<hr/>	<hr/>
Income (Loss) Before Capital Contributions	\$ (201,342)	\$ (247,055)
Capital Contributions	31,164	52,696
	<hr/>	<hr/>
Change in Net Assets	\$ (170,178)	\$ (194,359)
	<hr/>	<hr/>

MECOSTA-OSCEOLA COUNTY AREA TRANSIT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED SEPTEMBER 30, 2004

Operating Revenues

<u>REVENUES</u>	2004 AMOUNT	PERCENT OF TOTAL	2003 AMOUNT	PERCENT OF TOTAL	INCREASE (DECREASE) FROM 2003
Operating Revenue	\$ 233,686	34.15%	\$ 202,375	29.68%	\$ 31,311
Interest Income	2,828	.41%	4,546	.67%	(1,718)
Federal Assistance	79,313	11.59%	69,911	10.25%	9,402
State Assistance	361,026	52.75%	403,701	59.20%	(42,675)
Miscellaneous	7,545	1.10%	1,360	.20%	6,185
Total Revenue	\$ 684,398	100.00%	\$ 681,893	100.00%	\$ 2,505

Operating Expenses

The Authority's expenses may be reviewed in two formats:

Operating Expense by Department - The department describes the major function areas of the Authority and includes:

Operations - Responsible for all on-street services, including operators, dispatchers and schedulers.

Maintenance - Responsible for providing vehicles (including fuel, parts and cleaning) and facilities (upkeep, utilities and rent).

Administration - All other functions including executive direction, planning, marketing, information systems, purchasing and finance.

Depreciation - Estimated pro-ration of the cost of capital assets over the useful life of the asset.

MECOSTA-OSCEOLA COUNTY AREA TRANSIT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED SEPTEMBER 30, 2004

<u>DEPARTMENT</u>	2004 AMOUNT	PERCENT OF TOTAL	2003 AMOUNT	PERCENT OF TOTAL	INCREASE (DECREASE) FROM 2003
Operations	\$ 537,261	52.53%	\$ 535,898	57.69%	\$ 1,363
Maintenance	97,700	11.03%	109,447	11.78%	(11,747)
Administration	123,388	22.05%	125,626	13.52%	(2,238)
Depreciation	127,391	14.39%	157,977	17.01%	(30,586)
Total Expenses	\$ 885,740	100.00%	\$ 928,948	100.00%	\$ (43,208)

Operating Expense by Object - The object is the classification of expenses by type of item. The following table shows expenses for 2004 compared to 2003 by object:

<u>OBJECT</u>	2004 AMOUNT	PERCENT OF TOTAL	2003 AMOUNT	PERCENT OF TOTAL	INCREASE (DECREASE) FROM 2003
Wages and Benefits	\$ 569,961	64.34%	\$ 617,426	66.45%	\$ (47,465)
Services	23,353	2.63%	26,926	2.90%	(3,573)
Supplies and Materials	81,205	9.16%	74,271	8.00%	6,934
Utilities	17,572	1.98%	17,814	1.92%	(242)
Casualty and Liability	65,556	7.40%	33,649	3.62%	31,907
Miscellaneous	702	0.11%	885	.10%	(183)
Depreciation	127,391	14.38%	157,977	17.01%	(30,586)
Total	\$ 885,740	100.00%	\$ 928,948	100.00%	\$ (43,208)

Capital Assets

The Authority's investment in capital assets as of September 30, 2004, amounted to \$623,162 net of accumulated depreciation. Capital assets consist of buses, land, buildings, other vehicles, bus and garage equipment and office equipment. Net capital assets decreased by \$96,228 during the year and consist of \$31,164 of additions and \$247,218 of retirements and removals. In addition there was \$127,391 in depreciation expense. Major capital asset acquisitions during 2004 included the following:

- Additions to vehicles consisted of a 2004 Chevy Truck.

MECOSTA-OSCEOLA COUNTY AREA TRANSIT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED SEPTEMBER 30, 2004

Economic Factors and Future Outlook

With the current economic condition in the country, and especially in the State of Michigan, uncertainty surrounds the level at which federal and state operating assistance grants will be funded.

As with other employers, the Authority continues to face a rapid increase in rates paid for employee benefits, particularly for health insurance.

For its property and casualty insurance coverage, the transit is a participant in a public entity risk pool operated by Michigan Transit Pool. There exists the potential of approximately \$65,000 of additional retrospective billings from the Michigan Transit Pool related to the 2002 and 2003 fiscal years. The Michigan Transit Pool is hopeful some of the potential claims will settle positively, which will reduce the amount due.

Request for Information

This financial report is designed to provide a general overview of the Authority's finances for all those who have an interest in this agency's finances. Questions concerning any of the information presented in this report or requests for additional financial information should be addressed to the Mecosta-Osceola County Area Transit, 18710 16 Mile Road, Big Rapids, MI 49307.

MECOSTA - OSCEOLA COUNTY AREA TRANSIT
BIG RAPIDS, MICHIGAN

COMPARATIVE STATEMENT OF NET ASSETS

SEPTEMBER 30,

<u>ASSETS</u>	<u>2004</u>	<u>2003</u>
<u>CURRENT ASSETS</u>		
Cash	\$ 154,031	\$ 188,559
Accounts Receivable	19,759	19,752
Due From Other Governments	0	29,399
Prepaid Expense	9,095	3,613
Accrued Interest Receivable	1,852	176
Inventory	14,682	14,483
Total Current Assets	<u>\$ 199,419</u>	<u>\$ 255,982</u>
<u>PROPERTY AND EQUIPMENT</u>		
Land and Building	\$ 513,942	\$ 513,942
Buses and Other Vehicles	892,726	1,108,780
Bus and Garage Equipment	58,887	58,887
Office Equipment	145,542	145,542
Less Accumulated Depreciation	<u>\$ 1,611,097</u>	<u>\$ 1,827,151</u>
Net Property and Equipment	<u>987,935</u>	<u>1,107,761</u>
TOTAL ASSETS	<u>\$ 822,581</u>	<u>\$ 975,372</u>
<u>LIABILITIES</u>		
Accounts Payable	\$ 36,335	\$ 10,350
Accrued Liabilities		
Payroll Withholdings	3,406	764
Salaries and Wages	11,221	9,989
Compensated Absences	35,139	29,585
Due To Other Governments	33,406	51,432
Total Liabilities	<u>\$ 119,507</u>	<u>\$ 102,120</u>
<u>NET ASSETS</u>		
Invested in Capital Assets	\$ 623,162	\$ 719,390
Unrestricted	79,912	153,862
Total Net Assets	<u>\$ 703,074</u>	<u>\$ 873,252</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 822,581</u>	<u>\$ 975,372</u>

The accompanying notes are an integral part of these financial statements.

MECOSTA-OSCEOLA COUNTY AREA TRANSIT

BIG RAPIDS, MICHIGAN

COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30,

	<u>2004</u>	<u>2003</u>
<u>OPERATING REVENUES</u>	\$ 233,686	\$ 202,375
<u>OPERATING EXPENSES</u>	<u>885,740</u>	<u>928,948</u>
Operating Income (Loss)	\$ (652,054)	\$ (726,573)
<u>NONOPERATING REVENUES</u>	<u>450,712</u>	<u>479,518</u>
Income (Loss) before Capital Contributions	\$ (201,342)	\$ (247,055)
<u>CAPITAL CONTRIBUTIONS</u>		
Federal Financial Assistance	\$ 24,931	\$ 42,157
State of Michigan	<u>6,233</u>	<u>10,539</u>
Total Capital Contributions	\$ 31,164	\$ 52,696
Change in Net Assets	\$ (170,178)	\$ (194,359)
<u>TOTAL NET ASSETS - Beginning of Year</u>	<u>873,252</u>	<u>1,067,611</u>
<u>TOTAL NET ASSETS - End of Year</u>	<u>\$ 703,074</u>	<u>\$ 873,252</u>

The accompanying notes are an integral part of these financial statements.

MECOSTA - OSCEOLA COUNTY AREA TRANSIT

BIG RAPIDS, MICHIGAN

COMPARATIVE STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30.

	<u>2004</u>	<u>2003</u>
<u>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</u>		
Cash Flows from Operating Activities:		
Cash Received from Customers	\$ 227,998	\$ 214,385
Cash Payments to Suppliers for Goods and Services	(359,496)	(367,137)
Cash Payments to Employees for Services	(363,440)	(411,127)
Net Cash Provided by (Used) Operating Activities	<u>\$ (494,938)</u>	<u>\$ (563,879)</u>
Cash Flows from Noncapital Financing Activities:		
Project Zero Grant Received	\$ 64,845	\$ 111,571
State Operating Grants Received	301,851	289,019
Federal Operating Grants Received	84,443	86,127
Net Cash Provided by Noncapital Financing Activities	<u>\$ 451,139</u>	<u>\$ 486,717</u>
Cash Flows from Capital and Related Financing Activities:		
Acquisition and Construction of Capital Assets	\$ (31,164)	\$ (54,830)
Capital Grants Received	31,737	77,748
Proceeds from the Sale of Assets	7,545	1,360
Net Cash Provided (Used) for Capital and Related Financing Activities	<u>\$ 8,118</u>	<u>\$ 24,278</u>
Cash Flows from Investing Activities:		
Interest Received	\$ 1,153	\$ 4,642
Net Increase (Decrease) in Cash and Cash Equivalents	<u>\$ (34,528)</u>	<u>\$ (48,242)</u>
<u>CASH AND CASH EQUIVALENTS - Beginning of Year</u>	<u>188,559</u>	<u>236,801</u>
<u>CASH AND CASH EQUIVALENTS - End of Year</u>	<u>\$ 154,031</u>	<u>\$ 188,559</u>

The accompanying notes are an integral part of these financial statements.

MECOSTA - OSCEOLA COUNTY AREA TRANSIT

BIG RAPIDS, MICHIGAN

COMPARATIVE STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30,

	<u>2004</u>	<u>2003</u>
<u>RECONCILIATION OF OPERATING INCOME</u> <u>TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</u>		
Operating Income (Loss)	<u>\$ (652,054)</u>	<u>\$ (726,573)</u>
Adjustments to Reconcile Operating Income		
To Net Cash Provided by Operating Activities		
Depreciation	\$ 127,391	\$ 157,977
(Increase) Decrease in Current Assets		
Accounts Receivable	(7)	17,797
Prepaid Expense	(5,482)	(614)
Inventory	(199)	(5,173)
Increase (Decrease) in Current Liabilities		
Accounts Payable	25,985	(3,479)
Accrued Liabilities	9,428	(3,814)
Total Adjustments	<u>\$ 157,116</u>	<u>\$ 162,694</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ (494,938)</u>	<u>\$ (563,879)</u>

The accompanying notes are an integral part of these financial statements.

MECOSTA-OSCEOLA COUNTY AREA TRANSIT

BIG RAPIDS, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2004

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Mecosta-Osceola County Area Transit have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority's accounting policies are described below.

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Certain of the significant changes in the Statement include the following:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the Authority's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the Authority's activities.
- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements). The Authority has implemented the provisions of Statement No. 34 effective October 1, 2003.

A. Reporting Entity

The Mecosta-Osceola County Area Transit is organized pursuant to the Mass Transportation System Authorities Act, Public Act 55 of 1963. The Transit Authority has the capability and authority to provide public transportation to the general public in Mecosta and Osceola Counties. Even though Mecosta-Osceola County Area Transit is now serving a two-county area, Mecosta-Osceola County Area Transit's financial statements are not included in either Mecosta County's or Osceola County's audit reports. Only Mecosta-Osceola County Area Transit's operations are included in this report.

In evaluating how to define the Authority for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic - but not the only - criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are

MECOSTA-OSCEOLA COUNTY AREA TRANSIT

BIG RAPIDS, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the Authority and/or its citizens, or whether the activity is conducted within the geographic boundaries of the Authority and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Authority is able to exercise oversight responsibilities. Based upon the application of these criteria, there are no associated organizations included in the Authority's reporting entity.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Authority. The government-wide financial statements categorize primary activities as either governmental or business type. The Authority's activities are classified as business-type activities.

In the government-wide statement of net assets, the business-type activity is reported on a full accrual, economic resource basis, which recognizes as long-term assets and receivables as well as long-term debt and obligations. The Authority's net assets are reported in two parts - invested in capital assets and unrestricted net assets. The Authority does not have any outstanding debt obligations.

This government-wide focus is more on the sustainability of the Authority as an entity and the change in the Authority's net assets resulting from the current year's activities.

C. Measurement Focus, Basis of Accounting and Basis of Presentation

Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business or where the board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Authority utilizes one enterprise fund to account for its business-type activities.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the

MECOSTA-OSCEOLA COUNTY AREA TRANSIT

BIG RAPIDS, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Enterprise funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Assets, Liabilities and Equity

1. Deposits and Investments

The cash and cash equivalents of Mecosta-Osceola County Area Transit are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from date of acquisition.

The Authority's investment policy is in compliance with state law and authorizes the Authority to invest in investments authorized by Act 20 of the Public Acts of Michigan of 1943, as amended, provided however, any investment in mutual funds authorized by Act 20 shall be limited to securities whose intention is to maintain a net asset value of \$1.00 per share.

2. Fixed Assets and Depreciation

Fixed assets are stated at cost. Contributed property is stated at fair market value at the date of receipt. Costs relating to maintenance and repairs are charged to expense, whereas those for renewals and betterments, when significant in amount, are capitalized.

Depreciation of all exhaustible fixed assets used by the Enterprise Fund is charged as an expense against operations. Accumulated depreciation is reported on the balance sheet. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Buildings	20 years
Equipment	2-10 years
Buses	4-10 years

MECOSTA-OSCEOLA COUNTY AREA TRANSIT

BIG RAPIDS, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

3. Inventory and Prepaid Items

Inventories of motor vehicle fuel and vehicle parts are valued at the lower of cost or market on the first-in, first-out method. Office supplies are not included in inventories.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

4. Compensated Absences

The Authority accrues sick and vacation benefits in the period they are earned. Vacation leave is earned in varying amounts depending on the number of years of service of an employee. At September 30, 2004 and 2003, the sick and vacation benefits accrued was \$35,139 and \$29,585, respectively.

II. DETAILED NOTES ON FUND

A. Property and Equipment

A summary of changes in the Authority's capital assets follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Business-Type Activities</u>				
Capital assets, not being depreciated				
Land	\$ 8,500	\$ 0	\$ 0	\$ 8,500
Capital assets, being depreciated				
Buildings	\$ 505,442	\$ 0	\$ 0	\$ 505,442
Buses and Other Vehicles	1,108,780	31,164	(247,218)	892,726
Bus and Garage Equipment	58,887	0	0	58,887
Office Equipment	145,542	0	0	145,542
Total capital assets, being depreciated	\$ 1,818,651	\$ 31,164	\$ (247,218)	\$ 1,602,597

MECOSTA-OSCEOLA COUNTY AREA TRANSIT

BIG RAPIDS, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

Less accumulated depreciation for:

Buildings	\$ 292,667	\$ 26,799	\$ 0	\$ 319,466
Buses and Other Vehicles	650,806	91,006	(247,218)	494,594
Bus and Garage Equipment	42,584	4,267	0	46,851
Office Equipment	121,705	5,319	0	127,024
Total accumulated depreciation	\$ 1,107,762	\$ 127,391	\$ (247,218)	\$ 987,935
Total capital assets, being depreciated, net	\$ 710,889	\$ (96,227)	\$ 0	\$ 614,662
Business-type activities capital assets, net	\$ 719,389	\$ (96,227)	\$ 0	\$ 623,162

Major classes of property and equipment consist of the following:

	PURCHASED WITH AUTHORITY FUNDS	PURCHASED WITH CAPITAL GRANTS	TOTAL
Land and Buildings	\$ 134,071	\$ 379,871	\$ 513,942
Buses and Other Vehicles	43,203	849,523	892,726
Bus and Garage Equipment	17,846	41,041	58,887
Office Equipment	23,361	122,181	145,542
Less Accumulated Depreciation	\$ 218,481 (208,868)	\$ 1,392,616 (779,067)	\$ 1,611,097 (987,935)
NET PROPERTY AND EQUIPMENT	\$ 9,613	\$ 613,549	\$ 623,162

Disposition of assets acquired with Federal and State money require prior approval from the Michigan Department of Transportation.

B. Pension

The Mecosta-Osceola County Area Transit established a profit sharing plan with the CNA Insurance Companies effective October 1, 1992. Employees who are at least 21 years old with one year of service and work at least 1,000 hours during the fiscal year are eligible to participate in the plan. The Transit can contribute from 0% to 15% of gross wages for each eligible participant each year. All benefits vest

MECOSTA-OSCEOLA COUNTY AREA TRANSIT

BIG RAPIDS, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

once the employee has 5 years of service. Covered payroll is \$265,667 and total current fiscal year payroll for all employees is \$372,868. Mecosta-Osceola County Area Transit contributed 3% and 4% of covered wages totaling \$7,970 and \$16,121 for the years ended September 30, 2004 and 2003, respectively.

As of April 2004 the retirement plan was discontinued and the money in the plan was disbursed to its members.

C. Deposits and Investments

At year end, the carrying amount of the Authority's deposits was \$154,031 and the bank balance was \$163,974 of which \$163,131 was covered by federal depository insurance and \$843 was uninsured and uncollateralized.

D. Receivables

Receivables as of year end for the Authority are as follows:

	<u>2004</u>	<u>2003</u>
Receivables		
Interest	\$ 1,852	\$ 176
Accounts	<u>19,759</u>	<u>19,752</u>
Total Receivables	<u>\$ 21,611</u>	<u>\$ 19,928</u>

The Authority also has amounts due from various state and federal grants.

E. Contingencies

The State and Federal operating assistance contracts are subject to subsequent audit and adjustment by the State of Michigan. The State audits for fiscal years ended September 30, 2004 and 2003, either have not commenced or have not been completed.

F. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

MECOSTA-OSCEOLA COUNTY AREA TRANSIT

BIG RAPIDS, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

G. Concentration of Credit Risk

For the fiscal year ended September 30, 2004, the Authority was reimbursed by the State of Michigan for 42.236619648% of their eligible operating expenditures. The percentage is based on budgeted eligible operating expenses for all transits in the state. This percentage may be recalculated after total eligible expenses for all transits are determined based on audited figures.

H. Risk Management

The Transit is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the Transit carries commercial insurance. Liabilities in excess of insurance coverage, if any, are reported when it is probable that a loss has occurred and the amount of loss can be reasonably estimated.

For its property and casualty insurance coverage, the Transit is a participant in a public entity risk pool operated by Michigan Transit Pool which benefits participating transportation authorities. The Transit pays an annual premium for this coverage which provides funds to the Pool to secure specific and excess reinsurance, maintain the Loss Fund, and cover administrative and loss prevention service costs. Should the losses of the Pool, in a given coverage period, exceed the Loss Fund and the aggregate excess reinsurance, the Transit would receive a pro rata assessment for their share of the loss. During the years ended September 30, 2004 and 2003, there was a \$34,322 and \$9,653 increase in the premium previously charged by the risk pool. Premiums are expensed as incurred while excess reserve distributions are recognized as a contra-expense in the year received in accordance with Michigan Department of Transportation guidelines.

I. Lease Agreement

On June 13, 2002, the Authority entered into a four-year lease agreement for a Xerox copier. The agreement calls for monthly payments of \$81. The lease expense for the year ended September 30, 2004 and 2003 was \$969 and \$972, respectively. Future minimum lease payments are as follows:

2004-2005	\$	969
2005-2006		<u>807</u>
	\$	<u>1,776</u>

MECOSTA - OSCEOLA COUNTY AREA TRANSIT
BIG RAPIDS, MICHIGAN

COMPARATIVE SCHEDULE OF OPERATING REVENUES
FOR THE YEARS ENDED SEPTEMBER 30,

<u>OPERATING REVENUES</u>	<u>2004</u>	<u>2003</u>
Demand Response (Farebox)		
Mecosta County	\$ 15,379	\$ 12,629
Osceola County	9,063	9,372
Contract Services		
Mecosta County	116,078	105,726
Osceola County	89,164	69,239
Package Fares		
Mecosta County	55	63
Osceola County	4	0
Non-Transportation Revenue		
Mecosta County	2,321	2,914
Osceola County	1,622	2,432
Total Operating Revenues	<u>\$ 233,686</u>	<u>\$ 202,375</u>

MECOSTA - OSCEOLA COUNTY AREA TRANSIT
BIG RAPIDS, MICHIGAN

SCHEDULE OF OPERATING EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2004
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2003

	2004				2003	
	OPERATIONS	MAINTENANCE	ADMINISTRATION	TOTAL SYSTEM	TOTAL SYSTEM	TOTAL SYSTEM
Labor						
Operator's Salaries and Wages	199,997	\$ 0	\$ 0	\$ 199,997	\$ 228,318	
Other Salaries and Wages	56,514	41,779	74,578	172,871	178,995	
Fringe Benefits						
FICA						
Unemployment	18,018	3,594	5,979	27,591	30,352	
Group Insurance	961	0	0	961	2,056	
Workers' Compensation	112,469	9,287	13,761	135,517	122,349	
Pension Plan	12,741	7,293	576	20,610	10,417	
Uniforms and Other	5,381	1,141	1,448	7,970	16,121	
Services	3,377	817	250	4,444	28,818	
Professional	90					
Maintenance	903	5,592	12,095	17,777	19,529	
Other Services	479	2,992	1,202	3,895	4,511	
Materials and Supplies Consumed		0		1,681	2,886	
Fuel and Lubricants						
Tires and Tubes	51,262	0	0	51,262	49,418	
Other Materials and Supplies	0	6,346	0	6,346	5,072	
Utilities and Telephone	0	18,859	4,738	23,597	19,781	
Casualty and Liability Costs	9,398	0	8,174	17,572	17,814	
Miscellaneous Expenses	65,556	0	0	65,556	33,649	
Miscellaneous						
Advertising/Promotion Media	0	0	317	317	167	
Dues and Subscriptions	0	0	211	211	51	
Travel and Meetings	115	0	59	174	0	
Depreciation	117,805	4,267	5,319	127,391	667	
	\$ 655,066	\$ 101,967	\$ 128,707	\$ 885,740	\$ 928,948	

MECOSTA - OSCEOLA COUNTY AREA TRANSIT
BIG RAPIDS, MICHIGAN

SCHEDULE OF MECOSTA COUNTY OPERATING EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2004

	OPERATIONS	MAINTENANCE	GENERAL ADMINISTRATION	TOTAL SYSTEM
Labor				
Operator's Salaries and Wages	\$ 106,898	\$ 0	\$ 0	\$ 106,898
Other Salaries and Wages	30,207	22,331	39,862	92,400
Fringe Benefits				
FICA	9,631	1,921	3,195	14,747
Unemployment	514	0	0	514
Group Insurance	60,115	4,964	7,355	72,434
Workers' Compensation	6,810	3,898	308	11,016
Pension Plan	2,876	610	774	4,260
Uniforms and Other	1,805	437	134	2,376
Services				
Professional	48	2,989	6,465	9,502
Maintenance	483	1,599	0	2,082
Other Services	256	0	642	898
Materials and Supplies Consumed				
Fuel and Lubricants	27,400	0	0	27,400
Tires and Tubes	0	3,392	0	3,392
Other Materials and Supplies	0	10,080	2,532	12,612
Utilities and Telephone	5,023	0	4,369	9,392
Casualty and Liability Costs	35,040	0	0	35,040
Miscellaneous Expenses				
Miscellaneous	0	0	169	169
Advertising/Promotion Media	0	0	113	113
Travel and Meetings	61	0	32	93
Depreciation	62,967	2,281	2,843	68,091
	<u>\$ 350,134</u>	<u>\$ 54,502</u>	<u>\$ 68,793</u>	<u>\$ 473,429</u>

MECOSTA - OSCEOLA COUNTY AREA TRANSIT
BIG RAPIDS, MICHIGAN

SCHEDULE OF OSCEOLA COUNTY OPERATING EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2004

	OPERATIONS	MAINTENANCE	GENERAL ADMINISTRATION	TOTAL SYSTEM
Labor				
Operator's Salaries and Wages	\$ 93,099	\$ 0	\$ 0	\$ 93,099
Other Salaries and Wages	26,307	19,448	34,716	80,471
Fringe Benefits				
FICA	8,387	1,673	2,784	12,844
Unemployment	447	0	0	447
Group Insurance	52,354	4,323	6,406	63,083
Workers' Compensation	5,931	3,395	268	9,594
Pension Plan	2,505	531	674	3,710
Uniforms and Other	1,572	380	116	2,068
Services				
Professional	42	2,603	5,630	8,275
Maintenance	420	1,393	0	1,813
Other Services	223	0	560	783
Materials and Supplies Consumed				
Fuel and Lubricants	23,862	0	0	23,862
Tires and Tubes	0	2,954	0	2,954
Other Materials and Supplies	0	8,779	2,206	10,985
Utilities and Telephone	4,375	0	3,805	8,180
Casualty and Liability Costs	30,516	0	0	30,516
Miscellaneous Expenses				
Miscellaneous	0	0	148	148
Advertising/Promotion Media	0	0	98	98
Travel and Meetings	54	0	27	81
Depreciation	54,838	1,986	2,476	59,300
	<u>\$ 304,932</u>	<u>\$ 47,465</u>	<u>\$ 59,914</u>	<u>\$ 412,311</u>

MECOSTA - OSCEOLA COUNTY AREA TRANSIT
BIG RAPIDS, MICHIGAN

COMPARATIVE SCHEDULE OF NONOPERATING REVENUES
FOR THE YEARS ENDED SEPTEMBER 30,

	<u>2004</u>	<u>2003</u>
<u>STATE SOURCES</u>		
State of Michigan Operating Grants		
Local Bus Operating Assistance		
Prior Years Adjustment		
2003 - Mecosta	\$ 7,118	\$ (8,170)
2003 - Osceola	0	165,239
2004 - Mecosta	0	121,827
2004 - Osceola	164,594	0
Project Zero	155,538	0
	<u>33,776</u>	<u>124,805</u>
Total State Sources	\$ <u>361,026</u>	\$ <u>403,701</u>
<u>FEDERAL SOURCES</u>		
U.S. Department of Transportation		
Operating Grant - Section 5311		
Prior Years Adjustment		
Contract No. 02-0097Z2 - Osceola	\$ 0	\$ (1,483)
Contract No. 02-0067Z3 - Mecosta	0	30,169
Contract No. 02-0067Z11/R3 - Mecosta	0	41,022
Contract No. 02-0097Z6/R3 - Osceola	42,376	0
RTAP	36,937	0
	<u>0</u>	<u>203</u>
Total Federal Sources	\$ <u>79,313</u>	\$ <u>69,911</u>
<u>OTHER</u>		
Interest Income	\$ 2,828	\$ 4,546
Gain on Sale of Assets	7,545	1,360
Total Other Sources	\$ <u>10,373</u>	\$ <u>5,906</u>
TOTAL NONOPERATING REVENUES	\$ <u><u>450,712</u></u>	\$ <u><u>479,518</u></u>

RECEIVED NET OF (REPAYMENTS)	DUE FROM (TO) STATE 9-30-04
\$ 2,148	\$ 0
(2,406)	0
0	11,393
0	(7,680)
0	2,768
0	(835)
(23,729)	0
(24,020)	0
0	(2,872)
34,630	(33,711)
168,423	(3,829)
146,805	8,733
<u>\$ 301,851</u>	<u>\$ (26,033)</u>
<u>\$ 64,845</u>	<u>\$ (4,635)</u>
\$ 9,695	\$ 0
0	(95)
0	(7)
0	(977)
1,766	(2,309)
0	(5,681)
38,301	4,075
34,681	2,256
<u>\$ 84,443</u>	<u>\$ (2,738)</u>
<u>\$ 451,139</u>	<u>\$ (33,406)</u>
\$ 573	\$ 0
31,164	0
<u>\$ 31,737</u>	<u>\$ 0</u>
<u>\$ 482,876</u>	<u>\$ (33,406)</u>

MECOSTA - OSCEOLA COUNTY AREA TRANSIT
BIG RAPIDS, MICHIGAN

SCHEDULE OF EXPENSES BY CONTRACT AND GENERAL OPERATIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2004

	PROJECT ZERO	MECOSTA	OSCEOLA	TOTAL
Labor	\$ 18,643	\$ 189,335	\$ 164,890	\$ 372,868
Fringe Benefits	9,958	99,724	87,411	197,093
Services	1,238	11,820	10,295	23,353
Materials and Supplies	4,142	41,190	35,873	81,205
Utilities	1,012	8,851	7,709	17,572
Casualty and Liability Costs	2,475	33,717	29,364	65,556
Miscellaneous Expenses	69	338	295	702
Depreciation	1,062	67,523	58,806	127,391
TOTAL EXPENSES	\$ 38,599	\$ 452,498	\$ 394,643	\$ 885,740

MECOSTA - OSCEOLA COUNTY AREA TRANSIT
BIG RAPIDS, MICHIGAN

NET ELIGIBLE COSTS COMPUTATIONS OF GENERAL OPERATIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2004

	<u>FEDERAL - SECTION 5311</u>		<u>STATE OPERATING ASSISTANCE</u>	
	<u>MECOSTA</u> <u>02-0067Z11</u>	<u>OSCEOLA</u> <u>02-0097Z6</u>	<u>MECOSTA</u>	<u>OSCEOLA</u>
Operating Expenses				
Labor	\$ 189,335	\$ 164,890	\$ 189,335	\$ 164,890
Fringe Benefits	99,724	87,411	99,724	87,411
Services	11,820	10,295	11,820	10,295
Materials and Supplies	41,190	35,873	41,190	35,873
Utilities	8,851	7,709	8,851	7,709
Casualty and Liability Costs	33,717	29,364	33,717	29,364
Miscellaneous Expenses	338	295	338	295
Depreciation	67,523	58,806	67,523	58,806
Total Expense	\$ 452,498	\$ 394,643	\$ 452,498	\$ 394,643
Less Ineligible Expenses				
Depreciation	\$ 61,097	\$ 53,210	\$ 61,097	\$ 53,210
Audit Fees	2,700	2,700	0	0
Total Ineligible Expenses	\$ 63,797	\$ 55,910	\$ 61,097	\$ 53,210
Eligible Expenses	\$ 388,701	\$ 338,733	\$ 391,401	\$ 341,433
Less Project Revenue				
Package Hauling	\$ 55	\$ 4	\$ 55	\$ 4
Outside Maintenance	1,199	1,021	1,199	1,021
Propane Sales	451	384	451	384
Total Project Revenue	\$ 1,705	\$ 1,409	\$ 1,705	\$ 1,409
NET ELIGIBLE EXPENSES	\$ 386,996	\$ 337,324	\$ 389,606	\$ 340,024
Federal				
Section 5311				
Reimbursement (10.95%)	\$ 42,376	\$ 36,937		

MECOSTA - OSCEOLA COUNTY AREA TRANSIT
BIG RAPIDS, MICHIGAN

NET ELIGIBLE COSTS COMPUTATIONS OF GENERAL OPERATIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2004

	STATE OPERATING ASSISTANCE	
	MECOSTA	OSCEOLA
State Statutory Operating Assistance		
42.236619648 % of Net Eligible Expenses	\$ 164,594	\$ 143,615
But at Least a Minimum of Its:		
1997 Floor	\$ 158,743	\$ 155,538

MECOSTA - OSCEOLA COUNTY AREA TRANSIT
BIG RAPIDS, MICHIGAN

VEHICLE HOURS AND PASSENGERS
YEAR ENDED SEPTEMBER 30, 2004
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2003

(UNAUDITED)

	2004			2003
	MECOSTA	OSCEOLA	TOTAL	TOTAL
<u>VEHICLE HOURS</u>				
First Quarter	1,955	1,544	3,499	3,447
Second Quarter	2,039	1,512	3,551	4,050
Third Quarter	1,376	1,470	2,846	3,840
Fourth Quarter	1,414	1,384	2,798	3,449
Total	6,784	5,910	12,694	14,786

	2004				2003
	REGULAR PASSENGER	SENIOR PASSENGER	HANDICAPPED PASSENGER	TOTAL	TOTAL
<u>PASSENGERS</u>					
First Quarter	3,718	156	9,816	13,690	13,643
Second Quarter	3,636	67	10,550	14,253	14,324
Third Quarter	2,458	144	11,073	13,675	17,166
Fourth Quarter	1,758	138	10,941	12,837	12,632
Total	11,570	505	42,380	54,455	57,765

MECOSTA - OSCEOLA COUNTY AREA TRANSIT
BIG RAPIDS, MICHIGAN

MILEAGE DATA
FOR THE YEAR ENDED SEPTEMBER 30, 2004

(UNAUDITED)

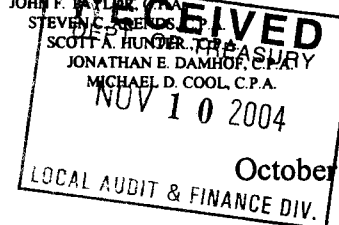
As required by Michigan Department of Transportation, the following schedule details the mileage data for the year ended September 30, 2004. This supplemental data was not audited and, accordingly, we do not express an opinion on it. However, the methodology used for compiling mileage has been reviewed and found to be an adequate and reliable method for recording vehicle mileage.

	<u>TOTAL PUBLIC TRANSPORTATION MILEAGE</u>
<u>DEMAND-RESPONSE</u>	
Quarter Ended:	
December 31, 2003	91,471
March 31, 2004	91,651
June 30, 2004	81,370
September 30, 2004	<u>74,764</u>
 TOTAL	 <u><u>339,256</u></u>

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CADILLAC, MICHIGAN 49601
231-775-9789
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M. WAYNE BEATTIE, C.P.A.
1902 - 1990
JACK H. BAIRD, C.P.A.
JERRY L. COTTER, C.P.A.
DALE D. COTTER, C.P.A.

JOHN H. BISHOP, C.P.A.
ROBERT V. BEATTIE, C.P.A.
DOUGLAS T. McMILLEN, C.P.A.
JOHN F. TAYLOR, C.P.A.
STEVEN C. BENDIS, C.P.A.



Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

Mecosta - Osceola County Area Transit
Big Rapids, Michigan

Dear Board Members:

We have completed our audit of the Mecosta-Osceola County Area Transit financial statements, and are communicating to you our comments and recommendations for the year ended September 30, 2004. The following comments and recommendations are to be reviewed and considered when the Authority is implementing organizational and procedural changes.

I. Michigan Transit Pool

For its property and casualty insurance coverage, the Transit is a participant in the public entity risk pool operated by the Michigan Transit Pool. For the year ended September 30, 2004, there was a \$34,322 increase in the premium previously charged by the risk pool. In addition, there exists the potential of approximately \$65,000 additional retrospective billings from the Michigan Transit Pool related to the 2002 and 2003 fiscal years. The Michigan Transit Pool is hopeful some of the potential claims will settle positively, which will reduce the amount due.

II. Reportable Condition on Internal Control

In planning and performing our audit of the financial statements of the Mecosta-Osceola County Area Transit for the year ended September 30, 2004, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted a certain matter that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the Authority's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

The relatively small number of people involved in the accounting functions of the Authority make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. We believe that the condition described above is a material weakness.

We wish to thank the Board for their continued confidence in our firm, and the administration and staff for their cooperation and assistance in helping us complete this engagement. If you have any questions relative to the preceding comments and recommendations, or other areas of your annual audit, please feel free to contact us.

BAIRD, COTTER AND BISHOP, P. C.

Baird, Cotter & Bishop, P.C.